

HUMBOLDT COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 AND 2015

HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Officials
 June 30, 2016

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Rod Harklau, Chairperson	Humboldt, Iowa	2018
Steve Long, Vice-Chairperson	Humboldt, Iowa	2016
David Boswell, Secretary	Humboldt, Iowa	2016
Scott Curran, Treasurer	Humboldt, Iowa	2018
Natalie Wergeland	Hardy, Iowa	2018
Pam Olson	Humboldt, Iowa	2020
Ashley Emick (appointed May, 2016)	Humboldt, Iowa	2016
Marlene Thompson (resigned May, 2016)	Humboldt, Iowa	2016
<u>Chief Executive Officer:</u>		
Michelle Sleiter	Humboldt, Iowa	
<u>Chief Financial Officer:</u>		
AJ Mason (started June, 2016)	Fort Dodge, Iowa	
Heather Shaul (resigned April, 2016)	Humboldt, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Humboldt County Memorial Hospital (Hospital) and its discretely presented component unit, Humboldt County Memorial Hospital Foundation (Foundation) as of and for the years ended June 30, 2016 and 2015, and related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital and its discretely presented component unit's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Humboldt County Memorial Hospital

To the Board of Trustees
Humboldt County Memorial Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Humboldt County Memorial Hospital and its discretely presented component unit as of June 30, 2016 and 2015 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of Hospital Contributions (and the related notes) on pages 3 through 3d and on pages 33 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2016 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Humboldt County Memorial Hospital's internal control over financial reporting and compliance.

Donald, Bill, Kyle & Co. P.C.

Atlantic, Iowa
October 3, 2016



Committed to Serve; Compassion to Care

HUMBOLDT COUNTY MEMORIAL HOSPITAL

1000 N. 15TH STREET

HUMBOLDT, IOWA 50548

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HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

The financial statements enclosed contain the financial information of Humboldt County Memorial Hospital (the Hospital) and Humboldt County Memorial Hospital Foundation. This discussion and analysis of the Hospital's financial performance provides an overview of their financial activity for the fiscal years ended June 30, 2016, 2015, and 2014. Please read it in conjunction with the Hospital's financial statements, which begin on page 4. The financial information of the discretely presented Humboldt County Memorial Hospital Foundation is not a part of this discussion and analysis.

FINANCIAL HIGHLIGHTS

The Hospital's net position increased by \$6,135 or 0.04 percent from 2015 to 2016 and decreased by \$3,963,638 or 22.2 percent from 2014 to 2015. See 3b for explanation of July 1, 2014 decrease.

The Hospital reported an operating loss of \$405,722 in 2016 and an operating loss of \$367,711 in 2015. The 2016 results reflect a decrease of \$38,011 as compared to 2015 results. Operating profit increased in 2015 as compared to 2014 by \$11,257.

Net non-operating revenues increased by \$22,644 or 6.3 percent in 2016 compared to 2015. Net non-operating revenues increased in 2015 by \$20,048 or 6.0 percent as compared to 2014.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 4 of the financial statements. One of the most important questions to ask about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted), all deferred outflows of resources, all liabilities and all deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in the Hospital's patient base, changes in local medical staff, access to visiting medical specialists, the Hospital's short and long term strategy as well as local economic factors to assess the overall health of the Hospital.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources as reported in the Statement of Net Position on page 4 of the financial statements. The following table, Table 1, presents a summary of the Hospital's Statements of Net Position.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2016</u>	<u>2015</u>	<u>Not Restated 2014</u>
Assets and Deferred Outflows of Resources:			
Current assets	\$ 7,459,813	\$ 7,017,633	\$ 3,766,731
Capital assets, net	9,327,654	10,181,668	11,407,731
Other non-current assets	4,956,812	5,721,423	5,950,112
Deferred outflows of resources	<u>1,107,238</u>	<u>870,176</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 22,851,517</u>	<u>\$ 23,790,900</u>	<u>\$ 21,124,574</u>
Liabilities:			
Current liabilities	\$ 2,972,391	\$ 3,720,756	\$ 1,385,822
Long-term debt	979,316	1,279,662	1,567,836
Net pension liability	<u>4,317,824</u>	<u>3,287,268</u>	<u>--</u>
Total liabilities	<u>8,269,531</u>	<u>8,287,686</u>	<u>2,953,658</u>
Deferred Inflows of Resources	660,573	1,587,936	292,000
Net Position:			
Invested in capital assets, net of related debt	7,796,342	8,613,832	9,545,524
Restricted expendable	205,189	200,051	200,048
Unrestricted	<u>5,919,882</u>	<u>5,101,395</u>	<u>8,133,344</u>
Total net position	<u>13,921,413</u>	<u>13,915,278</u>	<u>17,878,916</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 22,851,517</u>	<u>\$ 23,790,900</u>	<u>\$ 21,124,574</u>

The Hospital's total assets and deferred outflows of resources decreased from \$23,790,900 in 2015 to \$22,851,517 in 2016 (3.9%). Capital assets decreased from \$10,181,668 in 2015 to \$9,327,654 in 2016 (8.4%). Designated and restricted assets decreased from \$6,061,454 in 2015 to \$5,570,507 in 2016 (8.1%) as the Hospital used funds to assist with operating expenses. Operating results decreased in 2016 by \$38,011 from 2015.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Government Accounting Standards Board (GASB) required a change in the method of accounting for the Hospital's pension costs during the 2014-15 year. The requirement resulted in significant changes to: net position (\$3,981,089 decrease), long-term liabilities (\$4,482,880 increase), and created a deferred outflow of resources (\$501,791) during the 2014-15 year. During the 2015-16 year the Hospital's net pension liability increased to \$4,317,824. See Note J for additional information concerning the Hospital's pension plan.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2016, the Hospital's net position increased by \$6,135, as shown in Table 2. This increase is marginal as both total operating revenues as well as total operating expenses increased by 11.2% during the year. Total net position at the end of 2016 was \$13,921,413 and \$13,915,278 at year-end 2015.

Table 2: Operating Results and Changes in Net Position

	2016	2015	Not Restated 2014
Operating Revenues:			
Net patient service revenues	\$ 15,101,143	\$ 13,399,900	\$ 12,158,676
Other operating revenues	<u>1,538,886</u>	<u>1,560,880</u>	<u>1,422,804</u>
Total operating revenues	16,640,029	14,960,780	13,581,480
Operating Expenses:			
Salaries and benefits	9,386,027	8,276,408	7,410,746
Professional fees	2,054,995	1,786,493	1,631,169
Other operating expenses	4,139,848	3,768,886	3,745,014
Depreciation and amortization	<u>1,464,881</u>	<u>1,496,704</u>	<u>1,173,519</u>
Total operating expenses	<u>17,045,751</u>	<u>15,328,491</u>	<u>13,960,448</u>
Operating Income (Loss)	(405,722)	(367,711)	(378,968)
Non-Operating Revenues and Expenses:			
County taxes	306,057	303,886	299,723
Investment income	32,794	30,312	28,023
Non-capital grants and contributions	92,249	95,297	86,964
Other non-operating revenues and expenses, net	<u>(51,769)</u>	<u>(72,808)</u>	<u>(78,071)</u>
Total non-operating revenues, net	<u>379,331</u>	<u>356,687</u>	<u>336,639</u>
Excess of Expenses Over Revenues Before Capital Grants and Contributions and Change in Accounting Estimate	(26,391)	(11,024)	(42,329)
Capital Grants and Contributions	32,526	28,475	--
Change in Accounting Estimate	<u>--</u>	<u>--</u>	<u>(430,000)</u>
Increase (decrease) in net position	6,135	17,451	(472,329)
Net Position Beginning of Year - as Restated	<u>13,915,278</u>	<u>13,897,827</u>	<u>18,351,245</u>
Net Position End of Year	<u>\$ 13,921,413</u>	<u>\$ 13,915,278</u>	<u>\$ 17,878,916</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

OPERATING INCOME (LOSS)

The first component of the overall change in the Hospital's net position is its Operating Income or Loss - generally, the difference between Net Patient Service and Other Operating revenues and the expenses incurred to perform those services. In 2016, the Hospital reported an Operating Loss of (\$405,722) and an Operating Loss of (\$367,711) in 2015.

Operating revenues have shown an increase from 2015 to 2016. This increase was mainly due to an increase in skilled care and outpatient ancillary services. Overall, gross patient revenue increased by 12.7% in 2016.

Revenue increases were noted in nearly every department, most notably in Skilled Care (up \$77,360/16.7%), Surgical and Recovery Services (up \$399,553/19.4%) Emergency Services (up \$634,780/39.3%), Laboratory Services (up \$244,580/10.7%), Pharmacy (up \$417,177/14.7%), and all Therapy Services (up \$156,033/8.5%).

As expected with the increase in revenue, contractual adjustments and other adjustments to patient service revenue also increased \$662,386 (12.7%). This resulted in a \$1,701,243 (12.7%) increase in net patient service revenue.

The total cost of labor – wages and benefits – continues to be the largest component of the Hospital's expenses with general supplies being the second highest. It is not uncommon to see an increase in both labor expense as well as supply expense in times when the revenues of the Hospital are rising so quickly. Staff was added to accommodate the growth in the Nursing and Therapies Departments. The addition of employees and their families on the Hospital's self-funded health insurance along with higher acuity claims resulted in the increase of employee benefit expense.

Increase in labor costs of \$612,060 (9.6%)

Increase in employee benefits of \$497,559 (26.5%)

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. The Hospital continues to grow its technology in the area of clinical care, patient diagnostics and electronic health records. Investments in the facility and technology improve the efficiency of the Hospital and increase its ability to provide quality affordable healthcare locally.

The Hospital provides care to patients regardless of their ability to pay for these services. This service to the community is consistent with the goals of the Hospital when it was established in 1970 when it was agreed that a portion of the Hospital's costs would be subsidized by property tax revenues, making the facility more affordable to the County's lower income residents. This is reflected in the Hospital's accounts written off as uncollectible or as charity care. In 2016, \$349,269 in accounts was written off under these two categories. This figure is an increase from \$312,767 in 2015 or 11.7%.

NON-OPERATING REVENUES AND EXPENSES

Non-operating revenues consist primarily of property taxes levied by the Hospital and income from investments. The Hospital has maintained its tax asking at approximately \$300,000 over the past four years. Non-capital grants and contributions decreased by \$3,048 or 3.2% when compared to 2015. Investment income increased by \$2,482 or 8.2% as the investments gains from prior years were reinvested. The Hospital holds a majority of its investments in low risk bank certificates of deposit. Hospital interest expense decreased \$11,761 from 2015. Overall, net non-operating revenues increased from \$356,687 to \$379,331 from 2015 to 2016.

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating profits and non-operating revenues and expenses. The net change in the Hospital's cash position was an decrease of \$751,798 in 2016 from 2015.

BUDGETARY HIGHLIGHTS

Actual expenses were lower than the amended budget by \$93,202. Actual revenues were lower than budgeted by \$670,725.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2016, the Hospital had approximately \$9.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements. In 2016, the Hospital purchased new property and moveable equipment costing \$581,044. Of this, none was acquired through capital leases.

Debt:

At year-end 2016, the Hospital had a \$1,279,662 revenue note (bond) outstanding. See Note G to the financial statements.

OTHER ECONOMIC FACTORS

Physician recruitment and retention continues to be a goal for the Hospital. The focus in this area is turning towards the recruitment and retention of specialty providers that offer a wide range of services.

The Hospital continues to deal with the rising cost of health insurance for the general population. While the Affordable Care Act has increased the health coverage for our patients overall, these patients are paying more into their coverage as their rates have generally increased every year since 2014. These rate increases are being driven by losses realized by the Medicaid Managed Care Organizations (MCO) in Iowa. As these losses are realized the MCOs are freezing rate increases to the providers, having a negative effect on HCMH.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important in retaining good employees and contributing to the growth of the Hospital.

The Hospital strives to provide state of the art technology and services. Electronic health records (EHR) will require more people time and costs to keep up with governmental requirements and patient needs. The Hospital also continues to invest in the current facility by completing many updates to its general appearance.

The Hospital continues to provide health insurance coverage to its employees through a self-funded plan. Changes in utilization by the employees can have a significant impact on the cost realized by HCMH. This continues to be an area of risk for HCMH as this area is difficult to predict on a year over year basis.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer, at Humboldt County Memorial Hospital, 1000 North 15th Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Net Position
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 3,810,775	\$ 4,054,746
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$1,022,000 in 2016, \$409,000 in 2015)	2,239,034	1,790,379
Other receivables	67,629	46,672
Inventory	145,856	158,521
Prepaid expense	218,608	226,218
Succeeding year property tax receivable	292,000	292,000
Designated and restricted assets	<u>685,911</u>	<u>449,097</u>
Total current assets	7,459,813	7,017,633
Designated and Restricted Assets:		
Internally designated assets	5,365,318	5,861,403
Restricted assets	<u>205,189</u>	<u>200,051</u>
	5,570,507	6,061,454
Less amounts required to meet current liabilities	<u>685,911</u>	<u>449,097</u>
	4,884,596	5,612,357
Capital Assets:		
Depreciable capital assets, net	8,990,572	10,131,399
Non-depreciable capital assets	<u>337,082</u>	<u>50,269</u>
	9,327,654	10,181,668
Other Assets:		
Note receivable	7,027	14,054
Other	<u>65,189</u>	<u>95,012</u>
	72,216	109,066
Total assets	21,744,279	22,920,724
Deferred Outflows of Resources:		
Pension related deferred outflows	<u>1,107,238</u>	<u>870,176</u>
Total assets and deferred outflows of resources	<u>\$ 22,851,517</u>	<u>\$ 23,790,900</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 300,346	\$ 288,174
Accounts payable	885,310	279,103
Accrued employee compensation	595,131	498,287
Payroll taxes withheld and accrued	150,167	148,505
Accrued interest payable	8,915	10,923
Senior housing deposits	84,409	83,720
Estimated third-party payor settlements	948,113	2,412,044
Total current liabilities	<u>2,972,391</u>	<u>3,720,756</u>
Long-Term Liabilities:		
Revenue note, less current maturities	979,316	1,279,662
Net pension liability	4,317,824	3,287,268
Total long-term liabilities	<u>5,297,140</u>	<u>4,566,930</u>
Total liabilities	8,269,531	8,287,686
Deferred Inflows of Resources:		
Deferred succeeding year property tax	292,000	292,000
Deferred pension cost	368,573	1,295,936
Total deferred inflows of resources	<u>660,573</u>	<u>1,587,936</u>
Net Position:		
Invested in capital assets, net of related debt	7,796,342	8,613,832
Restricted - expendable	205,189	200,051
Unrestricted	5,919,882	5,101,395
Total net position	<u>13,921,413</u>	<u>13,915,278</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 22,851,517</u>	 <u>\$ 23,790,900</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Revenue:		
Net patient service revenue	\$ 15,101,143	\$ 13,399,900
Other revenue	<u>1,538,886</u>	<u>1,560,880</u>
Total revenue	16,640,029	14,960,780
Expenses:		
Nursing service	3,113,278	2,797,557
Other professional service	6,097,624	5,453,387
Senior housing	569,710	541,354
General service	1,616,091	1,531,973
Fiscal and administrative service	4,184,167	3,507,516
Provision for depreciation	1,435,058	1,468,233
Amortization	<u>29,823</u>	<u>28,471</u>
Total expenses	<u>17,045,751</u>	<u>15,328,491</u>
Operating Loss	(405,722)	(367,711)
Non-Operating Revenues (Expenses):		
County taxes	306,057	303,886
Noncapital grants and contributions	92,249	95,297
Investment income	32,794	30,312
Gain on disposal of equipment	9,278	--
Interest expense	<u>(61,047)</u>	<u>(72,808)</u>
Non-operating revenues, net	<u>379,331</u>	<u>356,687</u>
Excess of Expenses Over Revenues Before Capital Grants and Contributions	(26,391)	(11,024)
Capital Grants and Contributions	<u>32,526</u>	<u>28,475</u>
Increase in Net Position	6,135	17,451
Net Position Beginning of Year	<u>13,915,278</u>	<u>13,897,827</u>
Net Position End of Year	<u>\$ 13,921,413</u>	<u>\$ 13,915,278</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 13,168,289	\$ 15,798,685
Cash paid to suppliers	(8,318,916)	(7,659,234)
Cash paid to employees	(6,915,458)	(6,350,872)
Other revenue	<u>1,538,886</u>	<u>1,560,880</u>
Net cash provided by (used in) operating activities	(527,199)	3,349,459
Cash flows from non-capital financing activities:		
County tax revenue	306,057	303,886
Noncapital grants and contributions	<u>92,249</u>	<u>95,297</u>
Net cash provided by non-capital financing activities	398,306	399,183
Cash flows from capital and related financing activities:		
Capital grants and contributions	32,526	28,475
Principal paid on long-term debt	(288,174)	(288,496)
Capital expenditures	(209,911)	(246,270)
Construction in progress expenditures	(119,483)	(1,775)
Proceeds from disposal of equipment	9,278	--
Interest paid	<u>(63,055)</u>	<u>(74,734)</u>
Net cash used in capital and related financing activities	(638,819)	(582,800)
Cash flows from investing activities:		
Investment income	32,794	30,312
Change in designated assets	<u>(16,880)</u>	<u>(16,877)</u>
Net cash provided by investing activities	<u>15,914</u>	<u>13,435</u>
Net increase (decrease) in cash and cash equivalents	(751,798)	3,179,277
Cash and cash equivalents beginning of year	<u>4,772,118</u>	<u>1,592,841</u>
Cash and cash equivalents end of year	<u>\$ 4,020,320</u>	<u>\$ 4,772,118</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 3,810,775	\$ 4,054,746
Cash in designated and restricted assets	<u>209,545</u>	<u>717,372</u>
	<u>\$ 4,020,320</u>	<u>\$ 4,772,118</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(405,722)	\$(367,711)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	1,435,058	1,468,233
Amortization	36,850	35,498
Change in assets and liabilities		
Accounts receivable	(469,612)	189,308
Inventory	12,665	(3,052)
Prepaid expense	7,610	(47,813)
Deferred outflows of resources	(237,062)	(368,385)
Accounts payable, trade	354,557	33,844
Accrued employee compensation	96,844	49,370
Payroll taxes withheld and accrued	1,662	50,366
Senior housing deposits	689	1,265
Estimated third-party payor settlements	(1,463,931)	2,208,212
Net pension liability	1,030,556	(1,195,612)
Deferred inflows of resources	<u>(927,363)</u>	<u>1,295,936</u>
Total adjustments	<u>(121,477)</u>	<u>3,717,170</u>
Net cash provided by (used in) operating activities	<u><u>\$(527,199)</u></u>	<u><u>\$ 3,349,459</u></u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
Statements of Financial Position
June 30,

ASSETS

	<u>2016</u>	<u>2015</u>
Assets:		
Cash	\$ 200,727	\$ 380,812
Investments	3,396,843	3,064,806
Accrued interest receivable	<u>710</u>	<u>109</u>
Total assets	<u>\$ 3,598,280</u>	<u>\$ 3,445,727</u>

NET ASSETS

Net Assets:		
Restricted	\$ 51,289	\$ 32,951
Unrestricted	<u>3,546,991</u>	<u>3,412,776</u>
Total liabilities and net position	<u>\$ 3,598,280</u>	<u>\$ 3,445,727</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Revenues and Other Support:		
Unrestricted contributions	\$ 135,007	\$ 215,392
Restricted contributions	5,377	8,104
Fundraising events (net of \$21,783 and \$11,710 direct expenses for 2016 and 2015 respectively)	15,942	15,915
Investment income	<u>83,686</u>	<u>93,480</u>
Total revenues and other support	240,012	332,891
Expenses:		
Operating assistance to the Hospital	84,539	20,338
Professional fees	1,850	1,750
Other expenses	<u>1,070</u>	<u>--</u>
Total expenses	<u>87,459</u>	<u>22,088</u>
Operating Income and Change in Net Assets	152,553	310,803
Net Assets Beginning of Year	<u>3,445,727</u>	<u>3,134,924</u>
Net Assets End of Year	<u>\$ 3,598,280</u>	<u>\$ 3,445,727</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
Statements of Cash Flows
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received through contributions and fundraising	\$ 178,109	\$ 251,121
Cash paid to suppliers and Hospital	(87,459)	(22,088)
Fundraising expenses	(21,783)	(11,710)
Investment income	<u>142,807</u>	<u>139,755</u>
Net cash provided by operating activities	211,674	357,078
Cash flows from investing activities:		
Change in investments	<u>(391,759)</u>	<u>(138,762)</u>
Net increase (decrease) in cash and cash equivalents	(180,085)	218,316
Cash and cash equivalents beginning of year	<u>380,812</u>	<u>162,496</u>
Cash and cash equivalents end of year	<u>\$ 200,727</u>	<u>\$ 380,812</u>
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 152,553	\$ 310,803
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Change in accrued interest receivable	(601)	(13)
Unrealized gains on investments	<u>59,722</u>	<u>46,288</u>
	<u>59,121</u>	<u>46,275</u>
Net cash provided by operating activities	<u>\$ 211,674</u>	<u>\$ 357,078</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The Organization includes a foundation and a critical access county hospital with related healthcare ancillary, outpatient, long-term care, and senior housing services. Humboldt County Memorial Hospital (Hospital) is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Humboldt County Memorial Hospital Foundation (Foundation) has been identified as a legally separate component unit of the Hospital, and accordingly, the financial statements of the Foundation have been included as a discretely presented component unit on pages 8 through 10. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital.

Separate financial statements of the Hospital have been issued which do not include the discretely presented financial statements of the Foundation.

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining an allowance for doubtful accounts and for contractual adjustments.

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue (operating revenue for the Foundation) when earned, unless restricted by donor or law.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for capital acquisitions. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to forty years for buildings and land improvements and three to twenty years for equipment).

11. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest costs in 2016 or 2015.

12. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

13. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. The succeeding year property tax receivable has been recorded as a current asset and the related property tax revenue has been recorded as a deferred inflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

14. Compensated Absences

Hospital policies permit most employees to accumulate vacation, holiday, and sick time benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

15. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

16. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

17. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

18. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

19. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

20. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries.

Medicaid - Through March of 2016 the Medicaid payment system was similar to Medicare. In April the State of Iowa Medicaid program switched to a managed care payment system, with payment rates based on previous year cost reports. The Hospital will continue to file cost reports to determine payment rates for future years.

The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2014. The Medicaid cost reports have been finalized through June 30, 2013. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS - Continued

A schedule of patient service revenue and related adjustments for the years ended June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 2,903,580	\$ 2,387,900
Long-term care	1,762,614	1,767,968
Outpatient	<u>16,311,865</u>	<u>14,458,562</u>
Total gross patient service revenue	20,978,059	18,614,430
Deductions from gross patient service revenue:		
Medicare	3,342,153	2,766,406
Medicaid	442,332	531,256
Provision for bad debts	322,530	261,922
Charity care	26,739	50,845
Other deductions	<u>1,743,162</u>	<u>1,604,101</u>
Total deductions from gross patient service revenue	<u>5,876,916</u>	<u>5,214,530</u>
Net patient service revenue	<u>\$ 15,101,143</u>	<u>\$ 13,399,900</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE C - RESTRICTED NET POSITION

Restricted expendable assets are available for the following purposes:

<u>Hospital</u>	<u>2016</u>	<u>2015</u>
Long-term debt	\$ 200,051	\$ 200,051
Operating costs	5,138	--
	<u>\$ 205,189</u>	<u>\$ 200,051</u>
<u>Foundation</u>		
Hospice	\$ 891	\$ 891
Assisted Living	806	31
Long Term Care	2,523	2,523
Nursing	309	--
Dietary	1,786	1,786
Ambulance and Defibrillator	930	930
Emergency Room	12,432	12,432
Radiology	21,676	6,325
Public Health	150	150
Wellness	151	151
Genevieve's Place	150	150
Rehab Services	2,908	2,385
Employee Fundraisers	99	99
REACH Program	3,875	2,495
Cardiac Rehab	603	603
Surgery	2,000	2,000
	<u>\$ 51,289</u>	<u>\$ 32,951</u>

The Hospital and Foundation have no restricted nonexpendable assets or endowments at June 30, 2016 or 2015.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE C - RESTRICTED NET POSITION - Continued

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

<u>Hospital</u>	<u>2016</u>	<u>2015</u>
Purchase of property and equipment	\$ 32,526	\$ 28,475
Operating costs	46,875	--
	<u>\$ 79,401</u>	<u>\$ 28,475</u>
 <u>Foundation</u>		
Assisted Living	\$ --	\$ 785
Dietary	--	214
Radiology	281	481
Patient through nursing	--	11,538
Rehab	--	2,005
Ambulance and Defibrillator	2,000	1,000
Employee fundraisers	--	900
Reach	700	3,400
	<u>\$ 2,981</u>	<u>\$ 20,323</u>

NOTE D - DESIGNATED ASSETS - FOUNDATION

Of the \$3,546,991 (\$3,412,776 as of June 30, 2015) of unrestricted net assets as of June 30, 2016, \$3,062,971 (\$2,980,541 for 2015) has been designated by the Foundation's Board to establish an endowment fund to generate income to further the Foundation's mission. These funds remain under the control of the Foundation Board, which may, at its discretion, later use the funds for other purposes. These funds are summarized as follows:

	<u>2016</u>	<u>2015</u>
Cash	\$ 35,226	\$ 34,337
Certificates of deposit	99,690	99,690
Equity securities	2,928,055	2,846,514
	<u>\$ 3,062,971</u>	<u>\$ 2,980,541</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2016 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. See Note N regarding the Foundation's deposits. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

<u>Hospital</u>	<u>2016</u>	<u>2015</u>
Internally Designated Assets:		
Capital acquisitions:		
Certificates of deposit	\$ 5,158,204	\$ 5,141,005
Interest receivable	2,707	3,026
Employee health insurance:		
Cash	<u>204,407</u>	<u>717,372</u>
	<u>\$ 5,365,318</u>	<u>\$ 5,861,403</u>
Restricted Assets:		
Cash	\$ 5,138	\$ --
Certificates of deposit	200,000	200,000
Interest receivable	<u>51</u>	<u>51</u>
	<u>\$ 205,189</u>	<u>\$ 200,051</u>
<u>Foundation</u>		
Investments:		
Certificates of deposit	\$ 454,736	\$ 204,188
Equity securities	<u>2,942,107</u>	<u>2,860,618</u>
	<u>\$ 3,396,843</u>	<u>\$ 3,064,806</u>
Restricted Assets:		
Cash	<u>\$ 51,289</u>	<u>\$ 32,951</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE E - DEPOSITS AND INVESTMENTS - Continued

Investment income for designated and restricted assets, cash equivalents, and other investments is comprised of the following for the year ended June 30:

<u>Hospital</u>	<u>2016</u>	<u>2015</u>
Interest income	\$ 32,794	\$ 30,312
<u>Foundation</u>		
Interest income	\$ 2,092	\$ 882
Dividend income	141,316	138,886
Unrealized gains (losses) on investments	(59,722)	(46,288)
	<u>\$ 83,686</u>	<u>\$ 93,480</u>

Interest Rate Risk - The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1), and Level 3 inputs are unobservable and have the lowest priority. The Hospital and Foundation use appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Hospital and Foundation measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs were available for all investments at June 30, 2016 and 2015.

Level 1 Fair Value Measurements

The fair value of equity securities is based on quoted net asset values of the shares held by the Foundation at year-end. Level 1 fair values for equity securities using quoted prices on active markets for identical assets were \$2,942,107 at June 30, 2016 (\$2,860,618 at June 30, 2015).

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Receivable from:		
Patients	\$ 568,908	\$ 541,435
Medicare	1,311,605	838,607
Medicaid	418,107	177,726
Wellmark	396,146	314,550
Other commercial insurance carriers	349,574	122,397
Others	<u>216,694</u>	<u>204,664</u>
	3,261,034	2,199,379
Less allowances for doubtful accounts and contractual adjustments	<u>1,022,000</u>	<u>409,000</u>
	<u>\$ 2,239,034</u>	<u>\$ 1,790,379</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2016 and 2015 were as follows:

<u>Cost</u>	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
Land Improvements	\$ 255,564	\$ 13,702	\$ --	\$ 269,266
Buildings and Fixed				
Equipment	12,158,450	38,775	--	12,197,225
Major Movable Equipment	6,252,141	230,316	66,350	6,416,107
Senior Housing Assets	<u>5,189,568</u>	<u>11,438</u>	<u>--</u>	<u>5,201,006</u>
	23,855,723	294,231	66,350	24,083,604
<u>Depreciation</u>				
Land Improvements	143,164	12,789	--	155,953
Buildings and Fixed				
Equipment	6,217,197	473,209	--	6,690,406
Major Movable Equipment	4,337,476	713,550	66,350	4,984,676
Senior Housing Assets	<u>3,026,487</u>	<u>235,510</u>	<u>--</u>	<u>3,261,997</u>
Total Depreciation	<u>13,724,324</u>	<u>1,435,058</u>	<u>66,350</u>	<u>15,093,032</u>
Total Depreciable Capital Assets, Net	<u>\$ 10,131,399</u>	<u>\$(1,140,827)</u>	<u>\$ --</u>	<u>\$ 8,990,572</u>
Construction in Progress	\$ 1,775	\$ 371,133	\$ 84,320	\$ 288,588
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 50,269</u>	<u>\$ 371,133</u>	<u>\$ 84,320</u>	<u>\$ 337,082</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Land Improvements	\$ 247,291	\$ 8,273	\$ --	\$ 255,564
Buildings and Fixed				
Equipment	12,123,793	34,657	--	12,158,450
Major Movable Equipment	6,098,361	153,780	--	6,252,141
Senior Housing Assets	<u>5,145,883</u>	<u>43,685</u>	<u>--</u>	<u>5,189,568</u>
	23,615,328	240,395	--	23,855,723
<u>Depreciation</u>				
Land Improvements	130,622	12,542	--	143,164
Buildings and Fixed				
Equipment	5,745,691	471,506	--	6,217,197
Major Movable Equipment	3,592,417	745,059	--	4,337,476
Senior Housing Assets	<u>2,787,361</u>	<u>239,126</u>	<u>--</u>	<u>3,026,487</u>
Total Depreciation	<u>12,256,091</u>	<u>1,468,233</u>	<u>--</u>	<u>13,724,324</u>
Total Depreciable Capital Assets, Net	<u>\$ 11,359,237</u>	<u>\$(1,227,838)</u>	<u>\$ --</u>	<u>\$ 10,131,399</u>
Construction in Progress	\$ --	\$ 1,775	\$ --	\$ 1,775
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 48,494</u>	<u>\$ 1,775</u>	<u>\$ --</u>	<u>\$ 50,269</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2016 and 2015 follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>	<u>Current Portion</u>
Long-Term Liabilities:					
Series 2008 Revenue Note	\$1,567,836	\$ --	\$ 288,174	\$1,279,662	\$ 300,346
Net Pension Liability	<u>3,287,268</u>	<u>1,030,556</u>	<u>--</u>	<u>4,317,824</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$4,855,104</u>	<u>\$1,030,556</u>	<u>\$ 288,174</u>	<u>\$5,597,486</u>	<u>\$ 300,346</u>
	<u>Balance 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-Term Liabilities:					
Rural Economic Development Loan	\$ 12,000	\$ --	\$ 12,000	\$ --	\$ --
Series 2008 Revenue Note	1,844,332	--	276,496	1,567,836	288,174
Net Pension Liability	<u>--</u>	<u>3,287,268</u>	<u>--</u>	<u>3,287,268</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$1,856,332</u>	<u>\$3,287,268</u>	<u>\$ 288,496</u>	<u>\$4,855,104</u>	<u>\$ 288,174</u>

In December, 2004, the Hospital borrowed \$240,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. The loan was non-interest bearing, was payable in forty equal quarterly installments, and was paid off during the year ended June 30, 2015. The loan was collateralized by the Hospital's net revenues generated by the senior housing assisted living facility.

The Series 2008 Hospital Revenue Note was issued in May, 2008 and is collateralized by the Hospital's net revenues. The note was issued for the purpose of refunding the Series 2000 and Series 2001 revenue bonds. The note matures in semi-annual payments of \$175,365, including interest at 4.18% per annum, through May, 2020.

The annual debt service on the note is expected to require less than 25% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$351,000 and \$1,398,000 respectively.

Under the terms of the revenue note indentures, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The indentures also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the note is outstanding.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE I - NON-CURRENT LIABILITIES - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2017	\$ 300,346	\$ 50,384	\$ 350,730
2018	313,031	37,699	350,730
2019	326,253	24,477	350,730
2020	340,032	10,698	350,730
	<u>\$ 1,279,662</u>	<u>\$ 123,258</u>	<u>\$ 1,402,920</u>

The pension liability, as further described in Note J, represents an actuarial estimate of the Hospital's share of the Iowa Public Employee Retirement System (IPERS) unfunded pension liability.

NOTE J - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Hospital contributed 8.93% of covered payroll for a total rate of 14.88%. Protective occupation members contributed 6.56% of covered payroll and the Hospital contributed 9.84% of covered payroll, for a total rate of 16.40%.

The Hospital's contributions to IPERS for the year ended June 30, 2016 were \$596,105.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Hospital reported a liability of \$4,317,824 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's proportion was 0.0873968%, which was an increase of 0.0045086% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Hospital recognized pension expense of \$461,585. At June 30, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 62,158	\$ --
Changes of assumptions	119,308	--
Net difference between projected and actual earnings on pension plan investments	--	368,573
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	335,468	
Hospital contributions subsequent to the measurement date	<u>590,304</u>	<u>--</u>
	<u>\$ 1,107,238</u>	<u>\$ 368,573</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

The \$590,304, reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$(39,773)
2018	(39,773)
2019	(39,773)
2020	251,501
2021	<u>16,179</u>
	<u>\$ 148,361</u>

There were no non-employer contribution entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increases (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 7,640,517	\$ 4,317,824	\$ 1,513,334

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - PENSION PLAN - Continued

Pension Plan Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2016, the Hospital reported payables to IPERS of \$61,641 for legally required employer contributions and \$30,367 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE K - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2016 was approximately \$250,000 (\$216,000 at June 30, 2015). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE L - AFFILIATED ORGANIZATIONS

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays a monthly fee to Trinity for management services. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Fees to Trinity for personnel and services	\$ <u>273,288</u>	\$ <u>203,153</u>

Humboldt County Memorial Hospital Foundation (the Foundation)

As indicated in Note A1, the Foundation has been identified as a component unit of the Hospital. The Hospital received \$32,526 and \$10,168 from the Foundation during the years ended June 30, 2016 and 2015, respectively, for the purchase of property and equipment. The Hospital received \$52,013 and \$10,170 from the Foundation during the years ended June 30, 2016 and 2015, respectively, for operating assistance. As of June 30, 2016, the Foundation has no material pledges receivable related to Hospital projects.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 120 active employees and 1 retiree currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE N - COMMITMENTS AND CONTINGENCIES

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Humboldt County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three fiscal years.

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2016, the Hospital has designated funds in excess of actual claims paid of \$204,407 (\$717,372 at June 30, 2015). This amount of funds, shown under internally designated assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2016 is \$125,000 (\$150,000 at June 30, 2015) and is included in accounts payable.

Note Receivable

The note receivable represents funds advanced under an agreement with a healthcare professional practicing in the community. The agreement includes commitments by the healthcare professional to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the note over the term of the commitments.

Construction in Progress

The \$288,588 in construction in progress at June 30, 2016 is related to various projects for which no material commitments exist as of the date of this report.

Equipment Purchase

The Hospital has entered into an agreement to purchase equipment to be delivered during the year ending June 30, 2017. The equipment is being financed through a capital lease calling for 48 monthly lease payments of \$8,048.

Off-Balance Sheet Risk

The Foundation maintains its deposits at a local bank. At various times throughout the year and at year end, the deposits in the bank exceeded the FDIC insured deposits limit for one entity (by approximately \$154,890 at year end). Management of the Foundation has received no indication of any potential viability problems with the bank by the date of this report.

The Foundation maintains approximately \$2,942,000 of its investment portfolio in various mutual funds, none of which are covered by any form of insurance against loss.

Subsequent Events

The Hospital has evaluated all subsequent events through October 3, 2016, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2016

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest, and net position differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 306,057	\$ --	\$ 306,057	
Other revenues	16,661,290	84,539	16,745,829	
Transfers in (out)	<u>79,401</u>	<u>(79,401)</u>	<u>--</u>	
	17,046,748	5,138	17,051,886	
Expenses	<u>17,045,751</u>	<u>--</u>	<u>17,045,751</u>	
Net	997	5,138	6,135	
Balance beginning of year	<u>13,715,227</u>	<u>200,051</u>	<u>13,915,278</u>	
Balance end of year	<u>\$ 13,716,224</u>	<u>\$ 205,189</u>	<u>\$ 13,921,413</u>	
	Total Per Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 306,057	\$ --	\$ 306,057	\$ 291,976
Other revenues	<u>16,745,829</u>	<u>61,047</u>	<u>16,806,876</u>	<u>17,491,682</u>
	17,051,886	61,047	17,112,933	17,783,658
Expenses	<u>17,045,751</u>	<u>61,047</u>	<u>17,106,798</u>	<u>17,200,000</u>
Net	6,135	--	6,135	583,658
Balance beginning of year	<u>13,915,278</u>	<u>5,553,337</u>	<u>19,468,615</u>	<u>19,468,615</u>
Balance end of year	<u>\$ 13,921,413</u>	<u>\$ 5,553,337</u>	<u>\$ 19,474,750</u>	<u>\$ 20,052,273</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability
June 30,

	<u>2016</u>	<u>2015</u>
Hospital's proportion of the net pension liability	0.0873968%	0.0828882%
Hospital's proportionate share of the net pension liability	\$ 4,318,000	\$ 3,287,000
Hospital's covered-employee payroll	\$ 6,103,000	\$ 5,602,000
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	70.75%	58.68%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Hospital IPERS Pension Contributions
Year Ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 590,000	\$ 552,000	\$ 502,000	\$ 454,000
Contributions in relation to the statutorily required contribution	<u>(590,000)</u>	<u>(552,000)</u>	<u>(502,000)</u>	<u>(454,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered-employee payroll	\$ 6,582,000	\$ 6,103,000	\$ 5,602,000	\$ 5,234,000
Contributions as a percentage of covered-employee payroll	8.96%	9.04%	8.96%	8.67%

Note - Amounts are rounded

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 390,000	\$ 338,000	\$ 328,000	\$ 322,000	\$ 294,000	\$ 275,000
<u>(390,000)</u>	<u>(338,000)</u>	<u>(328,000)</u>	<u>(322,000)</u>	<u>(294,000)</u>	<u>(275,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 4,829,000	\$ 4,860,000	\$ 4,930,000	\$ 5,042,000	\$ 4,854,000	\$ 4,781,000
8.08%	6.95%	6.65%	6.39%	6.06%	5.75%

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

* * *

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Humboldt County Memorial Hospital, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Humboldt County Memorial Hospital's basic financial statements and have issued our report thereon dated October 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Humboldt County Memorial Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Humboldt County Memorial Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Humboldt County Memorial Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 16-I-A.

To the Board of Trustees
Humboldt County Memorial Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Humboldt County Memorial Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

Humboldt County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Humboldt County Memorial Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donerold, Bell, Hyatt & Co. P.C.

Atlantic, Iowa
October 3, 2016

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2016

PART I - SIGNIFICANT DEFICIENCIES

16-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

16-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2016 did not exceed the amount budgeted.

16-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 7,122

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2016

PART II - REQUIRED STATUTORY REPORTING - Continued

16-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

16-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	\$ 1,008

The transactions with C & M Repair do not appear to represent conflicts of interest since the purchases are not from an entity in which a trustee has a pecuniary interest and another department director approves the purchases.

16-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

16-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

16-II-G Economic Development: During the year ended June 30, 2016, the Hospital paid \$1,000 to the Humboldt County Development Association. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

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